

USAID/Montenegro
ANNUAL REPORT FY 2003

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A. Program Level Narrative

Program Performance Summary:

Background: Montenegro is a constituent Republic, with the Republic of Serbia, in the Federal Republic of Yugoslavia. Its land area is about one-sixth that of Serbia and its population is 670,000 (less than one tenth of Serbia's). The ethnic composition is considered to be predominantly Montenegrin although no recent count has been made. Presently, there are about 45,000 refugees, mainly from Kosovo. In 2001 unemployment was about 17 percent when adjusted for gray market activity. The average recorded wage in the formal sector is under \$200 per month.

In October 1997, Milo Djukanovic was elected President with support from a broad multi-ethnic coalition, ousting the cronies of Slobodan Milosevic from power. Djukanovic took office in January 1998. This political change in 1998 laid the foundation for the democratization of Montenegrin society. Social and political life became more open, NGOs and the media enjoyed greater freedoms, and the government embarked upon a series of potentially far-reaching political and economic reforms. By 2000, Montenegro acquired a large degree of independence and established a separate economic system; it remained minimally subordinate to Yugoslavia in foreign affairs and defense matters. The United States and EU welcomed the government's efforts to democratize society, and provided critical financial and technical assistance for reforms.

However, the supportive legislative and institutional frameworks needed for moving towards a consolidated democratic system, free market and Euro-Atlantic integration are far from being complete. The profound division of society over the issue of redefining or terminating the relationship between Montenegro and Serbia, years of war, and systemic deficiencies, including the legacy of the one-party rule and the socialist economy, has impeded reform. Corruption and patronage while ostensibly being addressed also remain part of the landscape. While the government has the task of carrying out legislation to address social, economic, and political problems, it also must demonstrate that it has the capacity to put laws into practice.

Long-term political stabilization and democratization in Montenegro were subjugated to an intense struggle for political power following the March 14, 2002 Belgrade Agreement that ended prospects for Montenegro independence in the short-term in favor of a loosely federated union with Serbia. (The international community believes the EU-brokered agreement is a positive step, as it will allow both Republics to move forward and concentrate on their respective reform programs.) The pro-independence, ruling Democratic Party of Socialists (DPS) failed to form a new government and lost control of the parliament after the Liberal Alliance (LSCG) joined Together for Yugoslavia (ZZJ). This new parliamentary majority was an unlikely alliance of the staunchest pro-independence and pro-federation groups, united only in their shared desire to turn the DPS and President Milo Djukanovic out of power. The new LSCG-ZZJ majority passed amendments fundamentally altering the election law and rules for media coverage, precipitating a crisis that threatened to derail the parliamentary elections that were scheduled for October 20.

The October 20 parliamentary elections gave the DPS-SDP coalition an absolute majority in parliament. As a result, the DPS-SDP coalition will be able to form a government on its own - although it is likely to work in cooperation with the ethnic Albanian parties. In contrast to previous elections, the losing coalitions and parties have accepted the results without any accusations of fraud and appear to be ready to assume their role as opposition parties. Presidential elections held in December 2002 did not succeed as the turnout was below the required 50 percent plus one.

Montenegro's economy was the smallest and poorest of the republics of Yugoslavia. Montenegro is characterized by the regional experience in transition from a statist, centrally planned system to a decentralized market economy. To some extent the situation was mitigated by the more free-market approach of Yugoslavia, but then worsened by a decade of regional wars, sanctions and disruption of traditional markets.

Reforms must take account of both the legal framework, and the building of sustainable institutions to maintain that framework. In general, more Government action is needed to help ensure that economic reforms in Montenegro are complemented with attention to the social consequences of reform. Inadequate attention to social safety-net issues, such as pension and health care system reform and benefits for the unemployed, could negatively affect public support for reform, as demonstrated by continued expression of unmet expectations. Popular perceptions regarding the Republic's performance in managing political, economic and social transition are extremely critical to continued citizen support for reform. It is crucial that the Government enjoy wide public support for the democratic transition, which can only be ensured by a transparent reform process, and closer cooperation with civil society. However, polling data indicate that the public at large is increasingly dissatisfied with the pace of economic transition. While the results of the recent parliamentary elections bode well for the future prospects for reform, and Montenegro appears now to be emerging from the political and social instability that have disrupted the economy for more than a decade, this dissatisfaction will merit close monitoring of all USAID activities affecting reform and its impact throughout the life of the current three-year USAID strategy.

USAID interests and goals: The important geographical position of Montenegro in the Balkans and in Europe, along with its longstanding tenuous relationship with Serbia, has made Montenegro a primary locus for establishing stability in the region. Consequently, a stable democratic polity and growing market economy oriented toward Europe is of vital U.S. foreign policy interest.

Donor Relations: Following several years in which USAID was the primary donor in Montenegro, other donors have become increasingly important and coordination with USAID/Montenegro is close on several fronts. In the energy sector USAID will be sharing responsibilities for restructuring the state power company, Elektroprivreda Crna Gora, with the European Agency for Reconstruction (EAR) and the World Bank. The establishment of the independent regulator for the energy sector will be shared with the British Department for International Development. USAID is also closely coordinating with the EAR on implementation of a value-added tax in the customs service and on development and implementation of the treasury system. EAR has also taken over the role of developing the next phase of the business registry. The German development assistance bank (KfW) has recently provided a line of credit to Opportunity Bank, which was established in Montenegro with USAID support. As USAID budget support ends in FY 2003, the World Bank will begin its support and the International Monetary Fund will assist with monetary stabilization.

Challenges: While Montenegro appears now to be emerging from the political and social instability that has disrupted the economy for more than a decade, much remains to be done. GDP remains near 1990 levels (about 1.3 billion), unemployment, once adjusted for the gray market, is 17 percent; the average recorded wage in the formal sector is under \$200; inflation in 2001 was 25 percent; international trade, excluding Serbia, yielded a deficit of \$400 million that same year; and if arrears accumulation is considered, the government deficit for 2001 is \$90 million. Furthermore, foreign investors have not been active in Montenegro, apparently awaiting political stabilization and implementation of new legislation relevant to business. Even then Montenegro may have difficulty competing with others in the region given, among other things, its small market size, lack of infrastructure, electricity shortages, and labor rigidities. In brief, more work remains to be done in areas such as fiscal planning and control, financial sector development and regulation, restructuring of the energy sector, privatization, completion of reforms in the business regulatory environment; private sector investment and growth, judicial reform, independent media, decentralization, health and infrastructure. Finally, it is crucial that the government enjoy wide public support for the democratic transition, which can only be ensured by a transparent reform process, and closer cooperation with civil society.

Key Achievements:

1. USAID took the lead in developing an interim treasury system in anticipation of an impending permanent system to be developed by the EU. The system itself is relatively unsophisticated, but the centerpiece of the project was the effective implementation of the Organic Budget Law with the migration of all GOM expenditure and revenue units onto the centralized system and the closure of individual

accounts. All GOM inflows and outflows are now tracked centrally, yielding greater transparency and a better information set for budget formulation.

2. The Parliament of Montenegro passed and the GOM with USAID support effectively implemented a new EU-compliant business organization law in FY 2002. The law removes all judicial or discretionary components from the process of establishing a business, making it a simple administrative procedure. This has the effect of both removing the potential for corruption, and making it easier and quicker for new businesses to start. A limited liability company can now be founded for one Euro in a maximum of four days. With USAID support, a modern registry was established and business registration information can now be found on-line. Finally, the law complies with international best practice in the areas of protection of minority shareholder rights and in requirements for by-laws.

3. The Central Bank of Montenegro has been one of USAID's key counterparts in the reform effort. In the two and a half years in which technical assistance has been provided key legislation has been passed, including the Law on Bank and amendments thereto, and the Law on Bank Bankruptcy; effective on- and off-site inspections procedures have been developed and implemented with extensive training provided to inspectors; a new chart of accounts was introduced to the central bank and to commercial banks, with commercial banks now reporting regularly in IAS; two failing banks have been put through liquidation; reserve requirements have dropped from 100 to 50 percent, with a target of 30 percent for FY 2003; and the clearing functions of the former monopoly payments bureau have been effectively subsumed into the central bank. Though continuing training and development will be needed in the coming years, the foundations for a solid financial system are falling into place.

4. Opportunity bank was licensed as a full service bank providing both micro-credit and SME loans. The increases in capital preceding this event, as well as the Bank's ability to leverage up by taking deposits has increase significantly its ability to service all types of clients including the urban and rural poor.

Environmental Compliance: The Mission reviewed all strategic objectives and determined that all current activities are in compliance with approved Initial Environmental Examinations (IEEs), Environmental Assessments and Categorical Exclusions, and all required mitigations and conditions are being followed.

Several activities will be initiated or extended, but only one of these is likely to have significant environmental consequences. An amended IEE will be completed for the renewal of a contract with CIPE. Newly competed activities requiring IEEs will include follow-on technical assistance for targeted government offices and research NGOs, local government assistance and judicial reform. The Community Revitalization through Democratic Action activity may undertake improvement of local water supply and treatment or other activities with environmental impact and, thus, will require more detailed environmental assessment.

Country Closeout & Graduation:

D. Results Framework

170-0130 Accelerated Development and Growth of Private Enterprise

- 170-0131 increased soundness of fiscal management
- 170-0132 improved functioning of financial markets
- 170-0133 private enterprises strengthened
- 170-0134 enhanced economic soundness of energy sector

Discussion: The first strategy for Montenegro was approved in FY 2002 and no indicators have yet been formally approved.

170-0200 More Effective, Responsive and Accountable Democratic Institutions

- 170-0203 more effective, independent and accountable legal institutions
- 170-0201 enhanced capacity and competitiveness of independent media
- 170-0202 strengthened civil society, political party and trade union capacity to serve and represent citizens

Discussion: The first strategy for Montenegro was approved in FY 2002 and no indicators have yet been formally approved.

170-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making

- 170-0211 citizens improve their living conditions through participation in community development committees
- 170-0212 improved local governance performance

Discussion: The first strategy for Montenegro was approved in FY 2002 and no indicators have yet been formally approved.

170-0410 Special Initiatives

Discussion: The first strategy for Montenegro was approved in FY 2002 and no indicators have yet been formally approved.

170-0420 Cross-Cutting Programs

Discussion:

170-130 Accelerated development and growth of private enterprise

Discussion: There is no Strategic Objective with this number. See SO 170-0130.

170-210 Increased, Better-Informed Citizens' Participation in Political and Economic Decision-making

Discussion: There is no Strategic Objective with this number. See SO 170-0210.

Selected Performance Measures - Montenegro

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Indicator (all data should pertain to FY or CY 02)	OU Response	Significant Result: Description of the significant result for a strategic objective	Data Quality Factors: Information relevant to the collection of this indicator data, e.g. "this data was not collected last year because it is only collected every five years."
Pillar I: Global Development Alliance			
Did your operating unit achieve a significant result working in alliance with the private sector or NGOs?			
170-0130 Accelerated Development and Growth of Private Enterprise			
170-0200 More Effective, Responsive and Accountable Democratic Institutions			
170-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making			
a. How many alliances did you implement in 2002? (list partners)			
b. How many alliances do you plan to implement in FY 2003?			
What amount of funds has been leveraged by the alliances in relationship to USAID's contribution?			
Pillar II: Economic Growth, Agriculture and Trade			
USAID Objective 1: Critical, private markets expanded and strengthened			
Did your program achieve a significant result in the past year that is likely to contribute to this objective?			
170-0130 Accelerated Development and Growth of Private Enterprise	Yes		The completion of the mass voucher privatization program, and subsequent opening of the new stock exchange and central depository agency privatized the majority of capital in over 200 companies, while allowing shares to be freely traded among citizens.
170-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making			
USAID Objective 2: More rapid and enhanced agricultural development and food security encouraged			
Did your program achieve a significant result in the past year that is likely to contribute to this objective?			
170-0200 More Effective, Responsive and Accountable Democratic Institutions			
USAID Objective 3: Access to economic opportunity for the rural and urban poor expanded and made more equitable			
Did your program achieve a significant result in the past year that is likely to contribute to this objective?			

170-0130 Accelerated Development and Growth of Private Enterprise	Yes			Opportunity Bank was licensed as a full service bank providing both micro-credit and loans to small and medium enterprises. The increases in capital preceding this event, as well as the bank's ability to leverage by taking deposits has increased significantly its ability to service all types of clients, including the urban and rural poor.
170-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making	Yes			The Community Revitalization Through Democratic Action project is initiating a process of community mobilization to involve citizens in community development and decision making that is contributing to greater access to economic opportunity. This will result from project activities that increase incomes and generate jobs through economic initiatives and through greater citizen involvement in local government decision-making that affects opportunities for growth.

USAID Objective 4: Access to quality basic education for under-served populations, especially for girls and women, expanded

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Number of children enrolled in primary schools affected by USAID basic education programs (2002 actual)	Male	Female	Total	
b. Number of children enrolled in primary schools affected by USAID basic education programs (2003 target)	Male	Female	Total	

USAID Objective 5: World's environment protected by emphasizing policies and practices ensuring environmentally sound and efficient energy use, sustainable urbanization,

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Hectares under Approved Management Plans (2002 actual)				
b. Hectares under Approved Management Plans (2003 target)				

Pillar III: Global Health

USAID Objective 1: Reducing the number of unintended pregnancies

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Percentage of in-union women age 15-49 using, or whose partner is using, a modern method of contraception at the time of the survey. (DHS/RHS)	%			
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USAID Objective 2: Reducing infant and child mortality

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Percentage of children age 12 months or less who have received their third dose of DPT (DHS/RHS)	Male	Female	Total	
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Percentage of children age 6-59 months who had a case of diarrhea in the last two weeks and received ORT (DHS/RHS)	Male	Female	Total	
Percentage of children age 6-59 months receiving a vitamin A supplement during the last six months (DHS/RHS)	Male	Female	Total	
Were there any confirmed cases of wild-strain polio transmission in your country?				

USAID Objective 3: Reducing deaths and adverse health outcomes to women as a result of pregnancy and childbirth

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Percentage of births attended by medically-trained personnel (DHS/RHS)	%			
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USAID Objective 4: Reducing the HIV transmission rate and the impact of HIV/AIDS pandemic in developing countries

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Total condom sales (2002 actual)				
b. Total condom sales (2003 target)				
National HIV Seroprevalence Rates reported annually (Source: National Sentinel Surveillance System)	%			
Number of sex partners in past year (Source: national survey/conducted every 3-5 years)per DHS or other survey)				
Median age at first sex among young men and women (age of sexual debut) ages 15-24 (Source: national survey/conducted every 3-5 years) per DHS or other survey)	Male	Female	Total	
Condom use with last non-regular partner (Source: national survey/conducted every 3-5 years)per DHS or other survey)	%			
Number of Clients provided services at STI clinics				
Number of STI clinics with USAID assistance				
Number of orphans and other vulnerable children receiving care/support				
Number of Orphans and Vulnerable Children programs with USAID assistance				
Number of community initiatives or community organizations receiving support to care for orphans and other vulnerable children				
Number of USAID-supported health facilities offering PMTCT services				

Number of women who attended PMTCT sites for a new pregnancy in the past 12 months				
Number of women with known HIV infection among those seen at PMTCT sites within the past year.				
Number of HIV-positive women attending antenatal clinics receiving a complete course of ARV therapy to prevent MTCT (UNGASS National Programme & Behavior Indicator #4)				
Number of individuals reached by community and home-based care programs in the past 12 months				
Number of USAID-assisted community and home-based care programs				
Number of clients seen at Voluntary Counseling and Testing (VCT) centers				
Number of VCT centers with USAID assistance				
Number of HIV-infected persons receiving Anti-Retroviral (ARV) treatment				
Number of USAID-assisted ARV treatment program				
a. Number of individuals treated in STI programs (2002 actual)	Male	Female	Total	
b. Number of individuals treated in STI programs (2003 target)	Male	Female	Total	
a. Is your operating unit supporting an MTCT program?	N/A			
b. Will your operating unit start an MTCT program in 2003?				
a. Number of individuals reached by community and home based care programs (2002 actual)	Male	Female	Total	
b. Number of individuals reached by community and home based care programs (2003 target)	Male	Female	Total	
a. Number of orphans and vulnerable children reached (2002 actual)	Male	Female	Total	
b. Number of orphans and vulnerable children reached (2003 target)	Male	Female	Total	
a. Number of individuals reached by antiretroviral (ARV) treatment programs (2002 actual)	Male	Female	Total	
b. Number of individuals reached by antiretroviral (ARV) treatment programs (2003 target)	Male	Female	Total	

USAID Objective 5: Reducing the threat of infectious diseases of major public health importance

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

a. Number of insecticide impregnated bed-nets sold (Malaria) (2002 actual)				
b. Number of insecticide impregnated bed-nets sold (Malaria) (2003 target)				
a. Proportion of districts implementing the DOTS Tuberculosis strategy (2002 actual)	%			
b. Proportion of districts implementing the DOTS Tuberculosis strategy (2003 target)	%			

Pillar III: Democracy, Conflict and Humanitarian Assistance

USAID Objective 1: Strengthen the rule of law and respect for human rights

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

170-0200 More Effective, Responsive and Accountable Democratic Institutions	Yes			USAID's Rule of Law program assisted the Ministry of Justice achieve a significant success with the Courts Act, the cornerstone of the judicial system in Montenegro. USAID implementing partner ABA/CEELI provided expert assessments during the various drafting stages, organized roundtables with Montenegrin judges and international experts, and made a series of presentations to Members of Parliament. On January 31, 2002, the Montenegrin Parliament unanimously adopted the Act.
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USAID Objective 2: Encourage credible and competitive political processes

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

170-0200 More Effective, Responsive and Accountable Democratic Institutions	Yes			With USAID support, through NDI, the Center for Democratic Transition (CDT) performed remarkably well in performing a non-partisan elections monitoring function during the recent parliamentary elections. CDT projected the elections results accurately in less than an hour after all the polling stations closed. Normally, the official count is not announced until 18 to 24 hours from time the polling stations close; in the meantime opposing blocs often come to blows with each other. Having an accurate and reliable projection was fundamental to calming tensions in this recent, heated election. In conclusion, USAID-funded programs emphasizing capacity strengthening support for nonpartisan elections monitoring NGOs, such as CDT play an extremely helpful role in encouraging a credible and competitive political process.
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170-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making	Yes			This Strategic Objective, through ICMA, worked on the drafts of and supported the process securing approval in government for the Law on Local Government and law on Direct Election of Mayors. Once enacted, these laws will provide for the direct election of mayors and local assemblies.
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USAID Objective 3: Promote the development of politically active civil society

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

170-0200 More Effective, Responsive and Accountable Democratic Institutions	Yes			In 2002, there was an upsurge of government-NGO collaboration in drafting reform legislation, including NGO involvement in the drafting of the Law on Courts, Law on Police, Media Laws, Law on Conflict of Interest, and Public Administration Reform. The NGO sector has also been taking steps to continue engagement in such laws at the implementation stage, either in a collaborative or advocacy role.
170-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making	Yes			The Community Revitalization Through Democratic Action project is teaching communities and their elected community councils how to be effective in selecting, prioritizing, securing funding for, and executing (with close monitoring) community development projects. It is building capacity of community councils to address the media and to present their concerns effectively to local government authorities and others.

USAID Objective 4: Encourage more transparent and accountable government institutions

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

170-0130 Accelerated Development and Growth of Private Enterprise	Yes			The interim treasury system came on-line and now tracks all central government revenues and expenditures after closing of individual ministry accounts. This has greatly reduced the opportunity for discretionary spending and non-accountability for revenues generated at the ministry level.
170-0200 More Effective, Responsive and Accountable Democratic Institutions	Yes			USAID programs in independent media, NGO advocacy, and rule of law have helped engage the NGO sector in Government reforms promoting government accountability. In 2002, these included NGO involvement in the drafting of the Law on Courts, Law on Police, Media Laws, Law on Conflict of Interest, and Public Administration Reform.

170-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision-Making	Yes			The U.S.-Montenegro Partnership for Municipal Development contributed to transparency and accountability of local governments through extensive training on and implementation of the new budget law. Similarly, ICMA undertook extensive training on transparent public procurement practices mandated under the new law on public procurement. In addition, they have guided municipalities in executing 18 medium-scale projects applying these principles and procedures both in tendering and administering construction.
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USAID Objective 5: Mitigate conflict

Did your program in a pre-conflict situation achieve a significant result in the past year that is likely to contribute to this objective?
Did your program in a post-conflict situation achieve a significant result in the past year that is likely to contribute to this objective?

170-0410 Special Initiatives	Yes			Budget support to Montenegro significantly reduced tensions over electricity blackouts during the winter and prevented a crisis over building arrears in pension payments. These enabled the Government to negotiate more freely over the how the degree of associate with Serbia will be managed.
Number of refugees and internally displaced persons assisted by USAID	Male	Female	Total	

USAID Objective 6: Provide humanitarian relief

Did your program achieve a significant result in the past year that is likely to contribute to this objective?

Number of beneficiaries				
Crude mortality rates	%			
Child malnutrition rates	%			
Did you provide support to torture survivors this year, even as part of a larger effort?				
Number of beneficiaries (adults age 15 and over)	Male	Female	Total	
Number of beneficiaries (children under age 15)	Male	Female	Total	